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Dangers of Government Control Of Transportation Seen*

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At no time in this generation have the American people shown a more commendable interest and concern in the functioning of our government. They are questioning whether or not we are unwittingly or unwisely departing from the original and successful policy of this nation, and whether by what we are doing we promote its highest welfare.

The political, educational, and social advancement of America has its most firm foundation in economic freedom of enterprise. Our system of freedom, free enterprise, and popular government has led us to the greatest success that has been achieved by any government. Yet we are witnessing evolutionary changes in our government that give rise to a deep concern of the American people concerning where we are going.

Unquestionably we have a big population, big economic resources, big taxation, and a big and far-expanding government. And within twelve years we have undergone the greatest inflation of our history. The dollar today is of less value than half a dollar in 1939. Federal taxes for this year of 1952 will probably exceed $75 billion, and approximately one-fourth of our gross income will be taken for and expended by the Federal government.

We have established the practice of conducting business under the free corporate system beyond any other nation. Millions of our people have their earnings invested in stocks and bonds of these corporations. But last year the government, on an average, took half or more of the net earnings of these corporations for taxes. And thereafter the remaining income of the stockholders, the owners of the corporations, were taxed against the same profits that were taxed in the hands of the corporation.

It must, of course, be recognized that high taxes accompany military activity. But, beyond military expenditures, our taxes for civilian purposes far exceed any taxes for such purposes imposed at any time preceding the last decade. Inflation, vast expenditures, and vast debts have gone hand in hand.

(Continued on page 5)

* An address delivered before the Oregon Division, Pacific Northwest Regional Forum, Portland, July 23, 1952. Dr. Frederick is also deputy director for governmental relations of the Transportation Association of America.

ARTICLES OF INTEREST IN THIS ISSUE

Dangers of Government Control of Transportation Seen. By John H. Frederick.

Role of Dividend Payments in Stock Valuation Assessed. By O. K. Burrell.

Waterborne Trade Prospects of Northwest Surveyed.

Current Business Trends in Oregon.

Role of Dividend Payments in Stock Valuation Assessed*

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A familiar topic of discussion in investment circles is the relative importance of dividends and earnings in common-stock valuation. Investors, of course, like dividends; and it has long been agreed that, if all other factors are equal, a higher-dividend stock will sell at a higher price than a lower-dividend stock. But precisely how much more in market value is generated by a dollar earned and paid out than by a dollar earned but retained in the business? This is a difficult question to answer because "all other things" are rarely equal. Standard Oil of California and Amerada Petroleum Co. both pay dividends at the rate of $3 per annum. The earnings of the two companies are approximately comparable, Standard Oil about $6 as compared to $5 for Amerada. But the market price of Amerada is more than three times that of Standard Oil of California. Here it is clear that investor expectations are high in the case of Amerada, and this is perhaps the most important factor in the valuation. If so, it might be that an increase in the Amerada dividend would not of itself generate any increase in valuation.

It seems likely that any broad generalization that might be developed could not be applied accurately in all cases and at all times. When investor expectations are high, as in 1929, the dividend factor is probably less important in determining stock prices. Even when investor expectations are not high generally, but are high with reference to a particular stock, the dividend factor is probably less important. A company with brilliant prospects and a consequent high price-earnings ratio might not respond to a dividend change as would a company with only average prospects.

If investors could be certain that plowed-back earnings would result in future dividends, or even make the current dividend more secure, there would be little basis for separate appraisal of the dividend factor. But investors have learned that earnings retained are no guarantee of future dividends; their somewhat skeptical attitude toward retained earnings seems to have basis in logic.

It must be emphasized that all this is merely conjecture,

(Continued on page 2)

* Adapted in part from an article by Professor Burrell in the *Commercial and Financial Chronicle* for Aug. 21, 1952.

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Role of Dividend Payments in Stock Valuation Assessed

(Continued from page 1)

based on observation of stock-price behavior. There is no tangible, concrete, and conclusive evidence that different types of stocks respond in different ways to dividend changes. Nor is there similar evidence that the dividend factor is a stronger influence at one time than another.

There has been virtually unanimous agreement that the dividend rate is an important factor and exerts an influence upon price entirely independent of the earnings factor. Nevertheless, until recently, no evidence has been presented and no opinion offered as to the precise weight of the dividend factor as an influence independent of earnings. Suppose a company earns, with some consistency, $3.00 per common share and pays at the annual rate of $1.50 and the stock sells for $25.00 per share. Now suppose that the dividend rate is increased to an annual rate of $2.00 but with no change in earning power or in the general level of security prices. Precisely what would be the increase in market price of the stock?

In the third revision of their classic *Security Analysis*[1], Benjamin Graham and David L. Dodd offer a specific formula to express the relative importance of earnings retained and paid out. This formula is suggested in the belief that the dividend factor should have a coordinate position with earnings in the valuation process.

The usual rough-and-ready valuation method is to apply a multiplier (price-earnings ratio) to the expected earnings. The multiplier, of course, will vary according to the prospects for the company and the industry.[2] The Graham and Dodd formula represents no fundamental deviation from this process. Their formula utilizes the multiplier (M) or price-earnings ratio; they suggest that their multiplier is the same sort of earnings multiplier that is employed in the traditional valuation method. Specifically their suggested formula is: $V=M(D+\frac{1}{3}E)$. Where V=value, D=expected dividend and E=expected earnings.

It will be observed that this formula yields the same result as the traditional approach only when the payout ratio is two-thirds. In that case the formula becomes: $V=M(\frac{2}{3}E+\frac{1}{3}E)=M\ (E)$. But if the payout is more than two-thirds V will exceed M(E), and conversely if the payout is less than two-thirds.

Let us assume companies A, B, C, and D, all with expected earnings of $3.00 and a normal multiplier of 10. The expected dividends, however, are $3.00, $2.00, and $1.00, and zero, respectively. The formula would yield valuations as follows:

Company A	$10 \times 3 + 10 \times 1 = 40$
Company B	$10 \times 2 + 10 \times 1 = 30$
Company C	$10 \times 1 + 10 \times 1 = 20$
Company D	$10 \times 0 + 10 \times 1 = 10$

What the formula suggests then is that each $1.00 of earnings paid out in dividends exerts an influence on market price four times as great as $1.00 retained in the business. This is evident in the above illustration, since the stock with a zero payout develops a valuation of $10.00[3], while the stock with a full payout develops a value of $40.00. In other words, each earnings dollar is worth $3⅓ in market price and *in addition* each dividend dollar adds $10.00 to market value. Each earnings dollar paid out, then, results in a valuation of $13⅓, which is four times the value of $3⅓ developed by a dollar of earnings not paid out.

No formal evidence is presented by the authors. They refer to two studies by others[4] which support the suggested formula, and state that "our own studies of various industry groups during the rather stable stock market of 1947-1949 led us to a similar conclusion that the weight of $1.00 of distributed earnings tended to be about four times as great as that of $1.00 of retained earnings." They do not, however, give details of these studies.

From the nature of things, anything in the way of final proof of the formula would be difficult. Stock prices may vary for so many reasons that we can never be sure that variations in prices of different stocks at the same time or variations in the price of the same stock at different times are due solely to dividend differences. Nevertheless, it would appear to be possible to assemble evidence bearing on the validity of the formula, which, even if not absolutely conclusive, would be persuasive, and point to its validity or lack of validity. This evidence might be based on the following procedures:

(1) We might select a group of low payout and a group of high payout stocks from the same industry and test whether or not stock price differences between the two groups can be accounted for on the basis of the formula. It would necessary that the stocks in the two groups be generally similar in all factors except payout ratios.

(2) We might select high payout and low payout groups from a list of stocks where factors other than the payout ratio are considered to be constant and test whether price differences between the two groups can be explained in terms of the formula. Here the stocks would not necessarily have to be in the same industry. It is necessary only that the stocks be considered to be

[1] McGraw Hill, 1951.

[2] Graham and Dodd also point out that in some cases a plus or minus adjustment is necessary for the recognition of special asset values. Presumably they have in mind stocks of companies that hold marketable assets not used in the normal operations of the business or stocks of companies whose net current assets are large in relation to quoted values.

[3] It seems evident that in many but not all cases asset values either in the form of marketable nonoperating assets or net current assets (after full allowances for senior securities) would prevent as low a price as this. This is fully recognized by the authors.

[4] Hugh Postoriza, "Valuing Utility Earnings Distributed and Retained," *Analysts Journal*, July 1945; Harold H. Young, "Factors Influencing Utility Price Earnings Ratios," *Analysts Journal*, Spring 1946.

similar in essential risk and prospects and dissimilar only in dividend payout ratios.

(3) We might assemble a number of instances of *unexpected* increases in dividend rates and test whether or not the resulting stock price increases can be explained in terms of the formula. It is necessary, of course, that the dividend increases be unexpected. A well-advertised increase in dividend would probably not result in a price jump in the stock when the dividend is announced. Indeed, if the dividend increase is less than anticipated, there may actually be a decline on announcement of the increased rate. Any decision as to which dividend changes were expected and which unexpected would be necessarily arbitrary.

Actually it proved to be impossible to test the formula by reference to high payout and low payout stocks from the same industry. Where wide differences in payout ratios were found in the same industry, invariably these appeared to reflect differences of size, capitalization, or marginality. The stocks were not really comparable in those cases where there were differences in payouts.

We may, however, test the formula by reference to prices of selected groups of high payout and low payout stocks where factors other than the payout ratio are considered to be comparable, and by examining the price behavior of stocks on announcement of dividend changes.

Test 1. Two groups of stocks were selected; one a high payout group and the other a low payout group. There were four stocks in each group, and they were selected so that the two groups would be as nearly comparable as possible on all counts except payout ratios. The stocks were all generally representative of producer rather than consumer goods. Each group included two metals and one automotive equipment. In addition, the high payout group included a railway-equipment and the low payout group a general-equipment stock. All stocks had Fitch ratings of BB except for one B in the low payout group. The stocks included in the two groups were: high payout: Pullman, Phelps Dodge, Kennecott, Dana Corp.; low payout: A. O. Smith, Aluminum Corp., Anaconda Copper, Allis Chalmers. In terms of simple averages the two groups compare as follows:

	Average Price	*Average Earnings*	*Average Current Dividend*	*Price-Earnings Ratio*	*Dividend Payout*
High payout	$60.20	$5.80	$4.25	10.4	73.3%
Low payout	$52.12	$7.03	$3.00	7.4	42.6%

Prices are as of the date of the study (spring 1952) and earnings are the adjusted average for the four years 1948-51.

Since the stocks were selected for comparability, it appears entirely reasonable to suppose that the difference in price-earnings ratios is due largely to the difference in payout ratios. On this assumption, then, we can develop the relative value of earnings retained and earnings paid out. The numbered computations below are based on the assumption that, if the low payout group increased the dividend payout to the level of the high payout group, the low payout group would then sell at 10.4 times earnings instead of 7.4 times earnings.

(1) From the table above and on the basis of our assumption, it appears that $1.00 of earnings with a 42.6 per cent payout will produce a market value of $7.40, and that $1.00 of earnings with a 73.3 per cent payout will produce a market value of $10.40.

(2) By simple linear extrapolation, then, $1.00 of earnings with zero payout would produce a market value of $3.24:

$$\$7.40 - \frac{(42.6 \times 3.00)}{(30.7)} = \$3.24$$

(3) Similarly, $1.00 of earnings with 100 per cent payout would produce a market value of $13.01:

$$\$10.40 + \frac{(26.7 \times 3.00)}{(30.7)} = \$13.01$$

(4) On the basis of this test, then, $1.00 of earnings paid out is worth in market value slightly more than four times as much as $1.00 in earnings retained: $13.01 + $3.24=$4.02.

This same test was repeated with various other combinations of stocks included in the sample. The results show no great deviation from those reported above.

Test 2. This test is concerned with price changes resulting from unexpected dividend changes. Here the method employed is somewhat different than that employed in Test 1. The Graham and Dodd formula is assumed to be accurate. On the basis of the formula, the change in price that should have resulted from the dividend change is compared with the change that in fact occurred.

From the very nature of things there is probably no such things as an entirely unexpected dividend change. Every market observer is familiar with instances where a decline in price has followed announcement of an increase in dividend rate. This is presumably a reflection of disappointment at the amount of increase and indicates not only that investors expected an increase but that they expected a greater increase than was forthcoming.

It should also be noted that a change in dividend rate may in part at least be considered by investors to be a reflection of management confidence or lack of confidence in maintenance of the current earnings rate. Hence a change in price resulting from a dividend change may not be entirely a matter of investor appraisal of the dividend factor but may reflect in part investor confidence or lack of confidence in the maintenance of the current earnings rate.

Since all dividend changes are to some extent anticipated and therefore discounted in advance, we would not expect this test to be as valid as the previous one. In general, we would expect it to considerably understate the real importance of the dividend factor.

On May 22, 1952, Southern Pacific directors increased the annual rate from $5.00 to $6.00 by declaring a quarterly dividend of $1.50 increased from $1.25. Just prior to the announcement the stock sold around 74. The 1951 per share earnings were $10.71; this was used in developing the multiplier at which the stock sold prior to the dividend change, as follows:

$$74 = M \frac{(\$5 + 10.71)}{(3)}$$

$$74 = M\ (8.57)$$

$$M = 8.63$$

The change in dividend, then, should have, according to the formula, resulted in a price increase of $8.60, developed as follows:

$$8.63\ \left(\frac{\$6+10.71}{3}\right)=82.60=\text{Theoretical new value}$$

$$82.60-74=8.60$$

Actually the price increased at the time of announcement from 74 to 79, although in subsequent days it rose to approximately the formula value—but in a strong rail market.

On the same basis, but without showing the detail, four other cases of dividend changes with resulting immediate price changes are summarized below.

Company	*Meeting Date*	*Immediate Price Change that Should Have Resulted from Application of Formula*	*Actual Immediate Price Change*
Loews, Inc.	May 28, 1952	$—5.46	$—2.38
Spencer Chemical	July 22, 1952	+5.02	+2.37
United Paramount	May 27, 1952	—5.12	—1 00
Spiegel, Inc.	July 2, 1952	—6.06	—1.12

Three of the cases included in the table were stocks selling around 15 or under. The results here may indicate that the Graham and Dodd formula is not entirely valid in the case of stocks selling at very low prices, or in cases where the dividend yield is either very high or very low. In other words, there may be a residuum of speculative value which has little relation to either dividends or earnings. Moreover, basic asset values in such cases as United Paramount and Spiegel may well justify such a minimum valuation as to lead to very little variation in price as a result of quite large changes in dividends.

In general, we may regard the tests of price changes resulting from dividend changes as distinctly inconclusive. It seems clear that by no means all of these dividend changes can be regarded as unanticipated. Indeed, in the cases of United Paramount and Loews the price drop from a few months prior to the dividend cut to the day following the reduction rather closely approximates the reduction expected by the formula.

The tests of the Graham and Dodd formula are far from conclusive, in the range of determining finally whether or not earnings paid out are worth precisely four times as much as earnings retained. But the tests, especially the first, do indicate that they are substantially correct. Earnings paid out do have an impact on market price several times as great as earnings retained.

It is interesting to speculate concerning the reasons why this is true. From the nature of things it is impossible to demonstrate or prove with any finality the reasons for this relationship; it is possible only to suggest reasons thta would appear to be in harmony with the observed relationships.

In one sense it might be sufficient merely to say that earnings paid out have more value than earnings retained simply because men think they have. Value is an intangible; it exists in the minds of men. Even psychology can do little more than to describe and perhaps to a limited degree predict human response to stimuli. Even psychology can do little more than speculate about the reasons for human behavior.

But all this is merely dodging the issue. A better approach is to assume that economic thinking is in general rational and then to search for sound reasons why men think as they quite apparently do think. Two reasons may be suggested to explain the apparent attitude toward dividends and retained earnings:

(1) Logically the value of a common stock is the sum of the present values of future returns, *i. e.*, dividends or liquidation payments.[5] If it were known, for example, that a particular company would never pay a dividend and would never liquidate, logically its stock would have no value.

The present value of a future amount is the sum required to be immediately invested at the given rate for the given time to accumulate to the given future amount. At 4 per cent, for example, $961 is the present value of $1,000 due in one year because $961 invested at 4 per cent for one year will grow to $1,000. But the present value of $1,000 due in forty years at 6 per cent is only $117 because that sum will grow to $1,000 in forty years at 6 per cent.

If the value of a stock is the sum of the present values of future returns, it is clear that nearby dividends are much more important than remote dividends. This is not only because nearby dividends are more certain but also because the nature of the mathematical process gives much greater weight to nearby returns without regard to variation in certainty.

If the retention of earnings really made future dividends more certain, the dividend factor would be less important in valuation. This is because the capitalization rate would be lower with the increase in certainty. But it is entirely clear that the retention of earnings is no guarantee of future dividend stability. Graham and Dodd offer a number of illustrations on this point.

(2) The stockholder can spend dividends; he cannot spend "reported earnings." He regards dividends as real and is perhaps a little doubtful of reported earnings. Moreover, this suspicion may be well founded in many cases.

In varying degrees reported earnings depend upon a set of estimates which are far from certainties. The problem is particularly difficult in a period of price and cost inflation. The estimates are commonly made in the light of legal and accounting orthodoxy, but the resultant "reported earnings" may be distinctly unrealistic.

The official position of the American Institute of Accountants, for example, is that depreciation charges should be based on cost[6] and not on anticipated replacement cost. This would not present any particular problem in a period of stable prices and costs. But in a period of inflation it inevitably means that some so-called reported earnings are unreal in the sense that they can never be paid out if the enterprise is to continue. The Institute view means that it regards the purpose of depreciation accounting as a means of maintaining the integrity of the original dollar investment rather than insuring continuance of the enterprise at the original level of productive efficiency. The attitude of the Institute would seem to be appropriate in the kind of world in which we do not live.

If the enterprise is not to be liquidated, that portion of "reported earnings" that has to be reinvested merely in order to maintain the same level of output is permanently denied to the investor. Under conditions of price and cost inflation, then, it would appear that investor suspicion of "reported earnings" has some basis in logic.

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[5] The best exposition of the principle is to be found in John Burr Williams, *The Theory of Investment Value*, Harvard University Press, 1938.

[6] There is, however, a strong minority dissenting opinion.

Dangers of Government Control Of Transportation Seen

(Continued from page 1)

These taxes may not in themselves condemn the expanding activities of the government that led to this condition, but they do call for the most searching consideration by the American people to determine where we go and whether wisely or unwisely. The changes in the operation of our government which have led to these taxes have their origin in two fundamental circumstances. One is the authorization by Congress of the activities that led to governmental expansion; the other is the constantly aggressive efforts of the executive department to intervene in economic activity and to expand governmental activities clothed with new governmental powers.

Such governmental activities cause surprise in some circles when they first come to the public notice. But government intervention and control of economic activity is not new to transportation. The railroads have been subject to government regulation since 1887, the oil pipelines since 1906, the motor carriers since 1935, the airlines since 1938, and inland water carriers since 1940. (Overseas American shipping has been partially subject to government regulation since 1926.)

The significant thing about all this activity was well summed up by the National City Bank of New York in a recent issue of its monthly report on economic conditions: "Any type of government intervention in economic activity may end in the use of force." Whether the government undertakes to set the terms of wage contracts, the prices at which sales are made, or the rates paid by shippers, it must exercise control in order to see that the terms it lays down are observed. This introduces the element of compulsion into the economy. It introduces force!

When the controls are established by law under democratic and constitutional procedures, it is the common duty to accept and support them and the duty of the executive to enforce them. But one control leads to another. Once the principle of free bargaining and free markets is given up and the principle of compulsion adopted, the areas in which compulsion may be required widen. They started in transportation in 1887 and look where we are now!

Since under a system of government controls, more and more executive decisions are required; it becomes necessary for the Congress to give more and more specific power to the executive; and the temptation of the executive to assume more power increases. Rule of men encroaches on rule of law. The exercise of power in one place requires it to be exercised elsewhere.

This is the history of government control everywhere. Many have seen little significance or danger to constitutional liberties in the steps which this country has taken along the path. Warnings where the road might lead have been belittled and derided, on the ground that they were "reactionary" or grossly exaggerated. But over a long period the country has witnessed the extension of executive control on an increasing scale; and this has been made easier, of course, by war.

We cannot afford to ignore the fact that, even under the wise provisions of our Constitution, a President, aggressively seeking more power and supported by a rubber-stamp Congress, can give us a socialistic or totalitarian government. This brings home to us the responsibility of the citizens of the nation in the selection of their senators and congressmen. A single member of Congress occupies one of the most responsible positions in the world. If he is going to meet the challenge of his position for service to the nation, he must be a statesman in his own right —with that sense of duty and loyalty that will lead him to the service of the public even though it may be to his personal or political disadvantage.

Executive encroachments on our government have increased with the years. The present President has consistently asserted a strong disposition to augment executive power over the functions of government. Two years ago he declared: "It is my purpose to look to the Secretary of Commerce for leadership with respect to transportation problems, and for the development of overall transportation policy within the executive branch." This position was taken notwithstanding the fact that independent regulatory agencies established by Congress are agencies of Congress and not of the executive department.

The American people have had a reverential deference for their Constitution. They have looked upon it as a protective wall against executive usurpation as well as security against popular excesses in the control of government. We must awaken to the fact that it is difficult to secure a government that protects us against ourselves. The need of "eternal vigilance" is still with us. There is still a possibility that "it might happen here."

In a recent speech, Lewis Douglas, former ambassador to England, referring to the contention that the President has undefined and unlimited power outside of the specific provisions of the Constitution, said: "If this proposition be valid, there is no restraint upon any whim or fancy which may intrigue any executive, no matter how benevolent he may be. Under this doctrine of limitless executive power a cotton farmer is as susceptible to seizure as by the arm of public authority as is a chemical plant. Limitless executive power is the highway to limitless tyranny."

Transportation, probably more than any other segment of our economy, is affected by government controls. This is why, beginning back in 1935, but with constantly increasing effort since 1948, the Transportation Association of America, through research, debate, and education, has been attempting to bring about an honest and objective approach to the entire problem.

Everyone in this audience is aware that the transportation industry of the United States, composed as it is of rail, highway, water, air, and pipeline carriers did not all come into being at one time or in the same way. Nor did it all come within the area of Federal regulation for the same reasons, at the same time, or in the same manner. The several forms of transportation have developed sometimes without proper coordination one with another; each has its own economic problems; each is highly competitive with the others; but all are useful parts of our transportation system.

The situation of all forms of transportation in this country is critical today for several reasons, but particularly because political and economic conditions are forcing common carriers steadily down the road toward govern-

ment ownership and operation. Unless the trend is arrested, the day will surely come when not only the common carriers but a substantial segment of all transportation can no longer be maintained as part of our free-enterprise system.

The political and economic pressures operating to bring about the so-called "nationalization" of our carriers are not of recent origin; they do not represent the action of any group dedicated to the task of destroying the transportation industry, or any part of it, as private enterprise. The pressure is largely the product of the evolution of the competing forms of commercial transportation, coupled with the national policies providing for their development and expansion. It is also the product of the dangerous indifference and unconcern on the part of many businessmen—the users of transportation services—concerning what is happening in transportation. Conditions in transportation have undergone many changes in the last few years, but the habits of thought of most people about the industry have not changed. We have been too complacent about controls—and remember *Controls Mean Compulsion!*

Waterborne Trade Prospects Of Northwest Surveyed

Past trends and recent developments in the pattern and nature of domestic and foreign trade should provide some insight into the future of waterborne trade in the Pacific Northwest. The entire Pacific Coast should play an important role in waterborne commerce because of its proximity to the Orient and other trans-Pacific areas and its excellent coastline and harbors. The postwar changes in the volume and value of United States trade, moreover, indicate further increases in which the Pacific Coast states, and specifically the Pacific Northwest, should be able to share. Certain factors, however, both domestic and international, will be especially significant in determining the future of United States waterborne commerce and the share of the Pacific Northwest in that total.

Since the war, Oregon's total domestic trade has increased somewhat, mostly because of larger petroleum receipts, since the tonnage of shipments from Oregon ports has dropped. Washington's domestic trade, on the other hand, has declined from the immediate prewar period, with the major share of the decline taking place in outbound tonnage.

No definite trend, however, is evident in the total volume of Pacific Northwest foreign trade since the end of World War II. After a sharp drop from 1947 to 1948, Oregon's foreign trade began to turn upward slightly. Washington's trade, meanwhile, has remained fairly constant at a level slightly below 1947. The region's exports and imports through 1950 followed the national trend, with exports declining from the peaks reached in 1947 and imports gradually increasing. The outbreak of the Korean conflict in 1950 upset this trend. During 1951, as a result of the unusual demand conditions in a rearming world, both exports and imports expanded rapidly in the nation and the Northwest alike, with exports showing by far the largest increase. In both Oregon and Washington the volume of foreign trade in 1951 exceeded the previous postwar high of 1947 by a considerable margin and the prewar level by an even greater margin.

The future trend of Pacific Northwest waterborne commerce will be determined in large measure by developments on the national and international scene, developments over which the region has little control. The future of its trade, however, will also depend upon other factors, such as careful planning of the future economic development of the region, the maintenance of peaceful labor-management relations in the shipping industry, and the pursuit of active port development and port promotion programs. These are within the realm of local action and will assume increasing importance when the world's commerce returns to more normal commercial channels.

Compared with many other regions of the nation the Northwest is still a "young" economy and its period of greatest expansion probably still lies in the future. The two most important industries in the Pacific Northwest are agriculture and lumber—both extractive industries. The predominance of these two fields in the Pacific Northwest economy is reflected in the statistics of foreign and domestic commerce, which show a similar lack of diversification. This lack of diversification has many disadvantages as far as waterborne trade is concerned, particularly foreign trade. Dependence upon a few exports of an agricultural and raw-material nature subjects the economy to wide swings in the volume of trade in response to changing demands and at the same time limits the geographical distribution of the region's trade. On the other side of the balance of trade, a lack of diversification limits the market for imports, particularly raw materials.

The introduction of more general manufacturing and the conservation of the natural resources of the area, a process already underway, are prerequisite to the long-run development of the economy and its trade. Present manufacturing devoted to the processing of raw materials produced in the region could be further expanded, as could the conversion of waste materials into byproducts. The development of additional new industry, on the other hand, is made particularly feasible in the Northwest because of the large potential power supply.

With further economic development, it would be reasonable to expect that the present imbalance of trade, that is, the large excess of exports over imports, would be reduced. The present large export balance has been supported by the unusual conditions of postwar world trade. Under more normal conditions it is doubtful if such a volume of exports could be maintained, in view of the specialized nature of exports and the limited market available for imports in the Pacific Northwest.

At the present time foreign trade is much less important to the Northwest than domestic trade; nevertheless, it appears that the best opportunity for an expansion of waterborne trade in the future lies in the foreign-trade area. Coastwise and intercoastal water carriers have been facing increasing competition from land carriers and have been fighting a losing battle up to this point. During the postwar period the volume of this domestic waterborne trade has been maintained largely by an increase in petroleum shipments which has offset losses elsewhere. Such petroleum shipments, however, will probably decrease as the petroleum reserves of nearby western Canada are de-

veloped. While all possible efforts should be made by water carriers to improve their service, possibilities for expansion appear to be very limited. Foreign trade, on the other hand, offers much better prospects in view of the increasing dependence of this nation upon foreign trade and the advantageous geographical location of the Northwest. The development of markets in the Northwest for imports and markets abroad for an increasing variety of their exports should move hand in hand with the economic development of the region.

In the past decade the economic expansion of the Pacific Northwest has been exceedingly rapid. This expansion, however, has been largely the result of wartime demands and the unsettled international situation following the war. At the end of World War II there was considerable doubt as to whether the Northwest could consolidate and retain the expansion which took place during the war. These fears, however, proved to be unfounded, and during the postwar years which preceded Korea the Northwest appeared to be digesting its wartime gains successfully. The aluminum industry, for example, owed its development entirely to World War II, and it was rather generally expected that production would have to be drastically curtailed with the return of peace. Such, however, did not prove to be the case; civilian demands were successfully devcloped to replace military demand.

With the advent of the Korean conflict and our large-scale rearmament program, it appears that the Northwest has again embarked on a period of expansion, the immediate course of which will be dictated by military demands. This second dose of military demand poses certain dangers for the Pacific Northwest. While fears of downward adjustments following World War II did not materialize, the period of quasi-peace was an extremely short one, and now with new military demands the pattern of development may be diverted still further from that which might have taken place under more normal conditions.

The unusual demand conditions of the postwar world have been reflected in the foreign trade of the Pacific Northwest. The world food shortage which followed the war and the demand for materials for reconstruction, particularly lumber, still were large factors in the demand for Pacific Northwest exports when the new demands coincident to the Korean conflict were added. This continuing high level of demand for traditional exports should not obscure the need for a greater diversification of exports and markets which will be needed if foreign trade is to be maintained or expanded under more normal conditions of commercial demand. Efforts also should be made to exploit the Pacific Northwest's proximity to the Orient by developing a more extensive transshipment trade with interior sections of the nation.—Supplement to *Monthly Review*, Federal Reserve Bank of San Francisco, Aug. 1952, pp. 22-23.

The School of Business Administration is now in its new quarters—Commonwealth Hall. Dedication ceremonies probably will be held during the winter term. * * * The Bureau of Business Research has completed a study of the economic values of salmon and steelhead trout in Oregon rivers. This was done at the request of a legislative interim committee.

PORTLAND FOOD PRICES

The University of Oregon Bureau of Business Research reports that in Portland, of 56 foods for which comparisons can be made between mid-September and mid-October 1952, 22 (mostly staples and canned goods) were higher and 22 (mostly meats, fruits, and vegetables) were lower, and 12 were unchanged. These are the preliminary average prices of foods which enter into the Portland Food Index to be released later by the U. S. Bureau of Labor Statistics.

Commodity and Unit	Average Oct. 15 1952	Change from Last Month	Oct. Range of Prices High	Oct. Range of Prices Low
	(1) Cents			
CEREALS & BAKERY PRODUCTS:				
Cereals:				
Flour, wheat (5 lbs.)	54.0	.2	59	51
Corn flakes (12 oz.)	21.7	....	24	21
Corn meal (lb.)	12.4	..	15	11
Rice (lb.)	21.7	.2	27	18
Rolled oats (20 oz.)	19.4	— .1	21	19
Bakery products:				
Bread, white, per loaf (lb.)	16.3	....	17	15
Vanilla cookies, (7 oz.)	23.1	.4	26	18
Layer cake (lb.)	44.5	.3	51	36
MEATS, POULTRY & FISH:				
Meats:				
Beef:				
Round steak (lb.)	107.9	— .3	120	98
Rib roast (lb.)	88.6	— 2.5	92	85
Chuck roast (lb.)	76.4	.8	85	75
Frankfurters (lb.)	62.5	— .9	70	49
Hamburger (lb.)	62.9	— .4	85	55
Veal:				
Cutlets (lb.)	106.5	—12.7	140	85
Pork:				
Chops (lb.)	85.2	— 3.8	98	77
Bacon, sliced (lb.)	72.6	— .9	83	65
Ham, whole (lb.)	67.1	— 4.7	71	63
Salt pork (lb.)	37.8	— .8	53	29
Lamb:				
Leg (lb.)	84.1	— 4.3	89	79
Poultry:				
Fryers, N.Y. dr. (lb.)	*			
Fish:				
Salmon, pink (16 oz.)	52.0	— 1.0	59	47
Salmon, fresh	*			
Halibut, fresh	*			
DAIRY PRODUCTS:				
Butter (lb.)	84.7	— 1.0	90	82
Cheese, Amer. proc. (lb.)	61.0	2.2	67	58
Milk:				
Fresh, delivered (qt.)	22.0	....	22	22
Fresh, grocery (qt.)	22.0	....	22	22
Evaporated (14½ oz. can)	14.8	....	16	14
Ice cream (pt.)	28.5	.	33	25
EGGS, Fresh (doz.)	76.1	— 1.1	83	69
FRUITS & VEGETABLES:				
Fresh:				
Apples (lb.)	11.9	.9	14	8
Bananas (lb.)	19.6	— .2	22	18
Oranges (size 200, doz.)	58.1	2.9	78	42
Beans, green (lb.)	17.2	1.7	23	14
Cabbage (lb.)	5.7	— .4	10	4
Carrots (bunch)	9.5	.3	12	8
Lettuce (head)	12.0	— .4	17	6
Onions, yellow (lb.)	8.3	— .1	10	6
Potatoes, white (15 lb.)	93.9	—14.4	120	80
Sweet potatoes (lb.)	15.3	†	19	12
Tomatoes (lb.)	11.7	— 2.7	15	8
Frozen:				
Peas (12 oz.)	25.8	.2	28	22
Strawberries, sl. (12 oz.)	37.5	— .2	47	33
Orange juice, conc. (6 oz.)	19.4	.5	24	17
Canned:				
Peaches (no. 2½ can)	30.8	.1	35	27
Pineapple (no. 2½ can)	35.8	.2	40	31
Corn, cream style (no. 303 can)	19.2	.	21	18
Tomatoes (no. 2½ can)	22.9	.3	26	18
Peas (no. 303 can)	19.9	.2	27	17
Baby foods (4½-4¾ oz.)	9.1	.1	10	9
Dried:				
Prunes (lb.)	25.2	.1	29	24
Navy beans (lb.)	17.0	.3	19	15
BEVERAGES:				
Coffee (lb.)	87.3	.1	95	80
Cola drink (6 btles.)	28.8	....	36	27
FATS & OILS:				
Lard (lb.)	19.7	....	29	15
Shortening, hydrog. (lb.)	32.0	....	37	31
Salad dressing (pt.)	34.6	.4	39	31
Margarine, colored (lb.)	32.4	.9	35	32
SUGAR & SWEETS:				
Sugar (5 lb.)	56.8	....	64	55
Grape jelly (12 oz. jar)	25.8	— .8	41	22

* Insufficient number of quotations to obtain a reliable average price.
† No price reported in September.

CURRENT BUSINESS TRENDS IN OREGON

Lumber. The West Coast Lumbermen's Association reports that production of Douglas-fir lumber in the Pacific Northwest continued at a high level during September 1952 and the first half of October. The attitude in the industry is, however, not as optimistic as production figures might lead an observer to conclude. At least part of the reason for this is in the fact that orders have continued for some time at a level lower than production. The September comparative figures for the industry are as follows (thousands of feet, board measure):

	Sept. 1952	Aug. 1952	Sept. 1951
Average weekly production	222,185	223,184	208,761
Average weekly orders	207,549	205,947	202,500
Average weekly shipments	232,204	222,474	200,993
Unfilled orders, end of month	812,227	920,710	539,514
Lumber inventory, end of month	947,846	991,931	919,258

Multnomah County Real-Estate Transactions. During September 1952 there were 1,496 real-estate sales amounting to $12,373,880 in Multnomah County. Of these, 1,098 involved residences, the total sales price of which was $10,039,363; 355 were sales of vacant property, $587,747; and 43 were sales of business properties, $1,746,770. Additional figures are:

	Sept. 1952	Aug. 1952	Sept. 1952
Number of sales	1,496	1,143	1,131
Value of sales	$12,373,880	$9,576,590	$9,650,449
Number of mortgages	1,118	1,063	942
Amount loaned	$7,679,969	$7,073,581	$5,706,297
Number of sheriff's deeds	4	4	4
Amount of sheriff's deeds	$32,867	$15,732	$25,153
Average residential sales price	$9,143	$9,022	$8,790

Employment. The Oregon State Unemployment Compensation Commission reports that the seasonal uptrend in unemployment got slowly under way during September 1952; in early October, however, reports from twenty-eight of the commission's local offices indicated fewer persons actively looking for jobs than at any time this year—although the total of 13,608 was slightly higher than for the same period in either 1950 or 1951. Insured unemployment compared unfavorably with other periods of 1952, the total number of claims at the end of October being 9,381, the highest since mid-May.

Department-Store Sales. Portland department-store sales are running slightly higher than last year, a rate of improvement which is now almost identical with the national average. Changes in the dollar volume of sales as compared with the same period a year ago are given below for Portland and other Pacific Coast cities:

	Week Ending Oct. 11, 1952	4 Weeks Ending Oct. 11, 1952	Calendar Year to Oct. 11, 1952
Portland	+6	+3	−3
Los Angeles	+20	+10	+2
San Diego	+27	+11	+5
Oakland	+12	+3	−3
San Francisco	+2	0	0
Seattle	+8	+3	0
Spokane	+3	−3	0
United States	+6	+2	−1

Banking. Oregon bank deposits and assets rose during September 1952. Totals of all Oregon banks belonging to the Federal Reserve System follow (figures are in millions of dollars and are for the close of business on the Wednesday indicated):

	Sept. 24, 1952	Aug. 27, 1952	Sept. 26, 1952
Loans	$ 608	$ 605	$ 538
Investments	582	563	526
Deposits	1,421	1,381	1,295

BANK DEBITS

Bank debits represent the dollar value of the checks drawn against individual deposits. Payment for approximately 90 per cent of all goods, property, and services is by check. Bank debits are regarded as indicators of the general trend of business, though their value for this purpose may be impaired by substantial changes in the level of prices. The Bureau of Business Research collects bank debits from 122 banks and branches monthly. On occasion, the totals for the same month in different issues of the *Review* are not directly comparable because of necessary adjustments in basic data.

Marketing Districts	Number of Banks Reporting	Debits Sept. 1952	Debits Aug. 1952	Debits Sept. 1951	Sept. 1952 Compared with Aug. 1952	Sept. 1952 Compared with Sept. 1951
Oregon	111	$1,358,970,380	$1,295,679,829	$1,300,054,378	+ 4.9	+ 4.5
Portland (Portland, Hillsboro, Oregon City, etc.)	30	829,467,836	789,580,274	808,270,473	+ 5.0	+ 2.6
Lower Willamette Valley (Salem, McMinnville, etc.)	15	106,498,155	103,233,792	90,328,357	+ 3.2	+17.9
Upper Willamette Valley (Albany, Corvallis, Eugene, etc.)	17	144,096,616	136,016,061	131,854,161	+ 5.9	+ 9.3
North Oregon Coast (Astoria, Tillamook, etc.)	4	24,968,745	16,288,157	24,630,821	+53.3	+ 1.4
Douglas, Coos, Curry counties	7	49,612,395	51,575,780	39,000,287	− 3.8	+27.2
Southern Oregon (Ashland, Medford, Grants Pass)	6	62,046,672	61,290,121	56,382,062	+ 1.2	+10.0
Upper Columbia River (The Dalles, Hood River, etc.)	6	18,291,002	18,173,221	16,324,680	+ 0.6	+12.0
Pendleton area	6	28,782,441	34,984,361	28,730,050	−17.7	+ 0.2
Central Oregon (Bend, Prineville, Redmond)	5	23,997,042	20,853,351	23,990,664	+15.1	0.0
Klamath Falls, Lakeview area	4	35,124,344	28,904,004	36,400,181	+21.5	− 3.5
Baker, La Grande area	6	17,592,237	15,816,928	20,132,384	+11.2	−12.6
Burns, Ontario, Nyssa	5	18,492,895	18,963,779	24,010,278	− 2.5	−23.0

BUILDING PERMITS

Building permits give an indication of building operations planned rather than actual construction under way. Care must be taken, in interpreting these data, to allow for the lag which may elapse between the issuance of the permit and the beginning of actual construction. The data have been collected by the Bureau of Business Research.

	New Residential Sept. 1952	New Non-residential Sept. 1952	Additions, Alterations & Repairs Sept. 1952	Totals Sept. 1952	Totals Aug. 1952	Totals Sept. 1951
Albany	$ 49,800	$ 5,100	$ 8,000	$ 62,900	$ 38,200	$ 69,299
Astoria	34,080	700	15,910	50,690	295,557	42,623
Baker	17,000	232,628	8,075	257,703	34,140	40,955
Bend	48,700	27,861	17,375	93,936	83,060	45,273
Coos Bay	40,000	0	0	40,000	109,175	796,353
Corvallis	113,420	600	14,645	128,665	191,306	265,120
Eugene	232,900	31,125	46,342	310,367	271,347	316,300
Grants Pass	103,765	8,980	16,840	129,585	103,915	182,296
Klamath Falls	17,500	41,600	108,537	167,637	91,742	96,387
La Grande	16,500	2,400	7,423	26,323	49,105	58,925
Medford	63,900	4,525	27,010	95,435	162,490	289,789
North Bend	110,550	67,220	31,399	209,169	52,579	102,047
Oregon City	29,000	1,450	26,300	56,750	41,895	8,325
Pendleton	47,000	1,000	9,165	57,165	193,264	112,889
Portland	1,981,700	5,373,700	1,462,395	8,817,795	4,380,095	4,247,330
Roseburg	54,890	50,550	24,728	130,168	250,120	153,644
Salem	393,572	81,065	54,040	528,677	476,223	487,693
Springfield	207,130	74,550	17,390	299,070	173,539	104,721
The Dalles	182,343	2,063	10,428	194,834	109,321	196,974
18 other communities	218,500	164,249	66,004	448,753	604,959	581,675
Totals	$3,962,250	$6,171,366	$1,972,006	$12,105,622	$7,712,032	$8,198,618